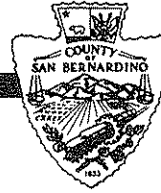


# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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June 19, 2009

**Robert McKernan, Director**  
San Bernardino County Museum  
2024 Orange Tree Lane  
Redlands, CA 92374

## **SUBJECT: MUSEUM CASH CONTROLS AUDIT**

### **Introductory Remarks**

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the San Bernardino County Museum (CCM). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

### **Background**

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation are the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

### **Objectives, Scope and Methodology**

Our overall objective was to determine whether cash handling controls practiced by the department effectively safeguard cash. Specific audit objectives were to determine whether:

1. The department properly maintained and secured its cash funds.
2. The department made deposits timely and intact.
3. The department practiced adequate cashiering controls.

We reviewed internal controls over cash for the period of September 30, 2007 through December 31, 2007. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

### **Conclusion**

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash. We determined that:

1. The department did not appear to properly maintain and secure its cash funds.
2. The department made deposits intact; however, they were not always timely.
3. The department did not practice adequate cashiering controls.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on May 1, 2009 and discussed our observations with management on May 6, 2009. The department's responses to our recommendations are included in this report.

### **Findings and Recommendations**

#### **Finding 1: Management of cash funds need to be improved**

The County's Internal Control and Cash Manual (1/08), Chapter 4 – Cash Funds, requires the following:

1. County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code should complete the fund reconciliation.
2. When a request for petty cash is made:
  - a. an authorized department employee, who is of a higher-ranking job code than the requestor, approves the voucher, and
  - b. the requestor then presents the voucher to the fund custodian and signs the voucher when the cash is received.
3. Departments must replenish their cash funds as soon as they have used 75% of the authorized amount.

The following conditions were disclosed during our review:

- Reconciliations of change funds were not documented. The fund custodian stated that change funds were reconciled twice a week, yet there were no records kept of the reconciliations.
- Of the thirty-eight petty cash vouchers that were tested, four vouchers were missing the claimant's signature and three vouchers were missing supervisory approval.
- The Museum's cash shortage fund had accumulated shortages of \$88.40 and the Museum Store's cash shortage fund had accumulated shortages of \$80.17. The authorized amount for each fund was \$100.

The department is not practicing the required guidelines for cash fund management as stated in the Internal Controls and Cash Manual. If petty cash fund expenditures are not being approved and reconciliations of all department cash funds are not being performed and documented, the risk of misappropriations of cash assets increases.

#### **Recommendation:**

Management should ensure that all cash funds are reconciled on a monthly basis by someone other than the fund custodian and disbursed according to the guidelines prescribed in the County's Internal Controls and Cash Manual. In addition, management should ensure the cash shortage funds are replenished when accumulated shortages reach 75% of the authorized fund balance.

### **Management's Response:**

Change funds are reconciled twice a week; in addition, a reconciliation log has been developed and will be implemented immediately to document the reconciliation. Supervisor will initial the log as verification of the reconciliation process.

The department has petty cash vouchers that assist in tracking employees' requests for petty cash and as a cash control function to verify supervisor's approval. The petty cash vouchers do not assist in reconciling the petty cash account. The Museum has a petty cash log that is used to reconcile the account and request replenishment. When reimbursement is issued in form of a check, an employee may not have signed the voucher as it would be required for cash. The issuer documents the check number on the voucher and the supervisor's approval is validated by signing the check. The petty cash custodian will require additional signatures on all petty cash voucher(s).

Administrative Supervisor has met with Fiscal Staff and informed the fund custodian of the importance of timely replenishment requests. Fund Custodian will reconcile cash shortage funds twice a week; this will ensure that the fund will not exceed 75% depleted.

### **Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

### **Finding 2: Safeguards for cash need to be improved**

The ICCM, Chapter 3 – Cash Controls, states safe combinations should be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually. Chapter 6 – Receipts, states provisions should be made to fix accountability for monies received by the individual providing relief for the cashier.

The following conditions were disclosed during our review:

- The combinations to both safes located at the Museum had not been changed in over two years.
- The front desk cash register was used by more than one employee, usually to cover breaks and lunches.
- Blank signed checks from the petty cash fund were left in the safe for department use while the physical fund custodian was on a leave of absence.
- The register key to the Museum's register was kept in an unlocked drawer located next to the register.

The department is not practicing the proper cash handling safeguards and controls as stated in the Internal Cash Controls Manual. The department becomes more susceptible to misappropriations related to cash without the enforcement of adequate safeguards.

**Recommendation:**

We recommend that management communicate the cash handling guidelines stipulated in the County's Internal Controls and Cash Manual to all staff. Furthermore, management should periodically monitor and enforce these controls to ensure they are being properly performed.

**Management's Response:**

Combinations to the safe will be changed July 2009. The safes are currently located in a locked and alarmed cash control room. Security staff and Fund Custodian are the only staff members who have access to the cash control room. Visitor Services staff only have access to the safe(s); they are not granted access to key nor code to the cash control room. There is a log sheet that confirms when an employee enters/exits the cash control room, initial by employee and Security and/or Fund Custodian.

By June 1<sup>st</sup>, 2009 the department will set-up and implement a second cash-till for the front-desk relief staff member to use for break and lunch coverage.

Petty cash checks require two separate signatures before they are considered fully endorsed. Due to a staff member's long-term family medical leave, the employee signed the checks, secured them in safe, in the cash control room, which was locked and alarmed knowing that a 2<sup>nd</sup> signature would be required for full endorsement. The Department will authorize a third person on the petty cash checking account to ensure that in the event that one person is absent the check can be issued with two authorized signatures.

The Museum Store registers do not have keys, they use logon credentials only. The key for the main-Museum register has been moved to the cash control room.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Finding 3: Lack of Segregation of Duties**

The ICCM, Chapter 2 – Internal Controls, states that no one person should be assigned concurrent duties that will allow him/her complete control over a transaction or an asset. However, the department did not follow this rule. The security guard, who has the authorization to perform voids, also had access to the register to process sales

transactions. Without a proper segregation of duties, an employee can void valid transactions and keep the money made from the transaction.

**Recommendation:**

We recommend that management delegate the duty of performing void authorizations to a supervisory level employee who does not have access to the register to process sales transactions.

**Management's Response:**

The Museum has taken necessary measures to ensure proper scheduling of employees during operational hours. The department has transferred the duties of performing voids to the Accounts Receivable, Fiscal Assistant during normal business hours. During weekends/holidays, member from Security Division will be required to perform the void due to lack of staffing however will not have access to the register.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Finding 4: Failure to make timely deposits**

The ICCM, Chapter 3 – Cash Controls, states that County departments must deposit cash receipts by the next business day when the amount of receipts reaches \$1,000. If lesser amounts are collected, deposits should be made at least weekly. On seventeen occasions, the Museum accumulated cash receipts of over \$1,000 which were not deposited by the next business day. Maintaining large amounts of cash at the Museum significantly increases the risk of loss due to misappropriation of cash assets.

**Recommendation:**

We recommend that management ensure that the cash receipts be deposited by the next business day when the amount of receipts reaches \$1,000 or at least weekly.

**Management's Response:**

The Museum will request the Auditor, Controller & Recorder's office to switch the armor pick-up day from Tuesday to Monday. This change will ensure that any receipts over \$1,000 that occurred during the weekend will be deposited on the next business day. When a deposit reaches a \$1,000 during a non-armor pick-up day, a deposit will be hand-carried to the bank. In reviewing incoming revenues it was determined that these changes will accommodate the \$1,000 threshold.

**Auditor's Response:**

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_

Howard Ochi, CPA  
Chief Deputy Auditor  
Internal Audits Section

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